

## **Dimitar Radev: Outlook and policy challenges for Europe, with a focus on Central, Eastern, and South Eastern Europe**

Remarks by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the IMF European Department – Policy Dialogue, Washington DC, 18 October 2025.

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Dear colleagues,

Thank you for the opportunity to share a few reflections on the outlook and policy challenges for Europe, with a particular focus on our region - Central, Eastern, and South Eastern Europe.

The Regional Economic Outlook presented this morning provides a timely and comprehensive assessment of the European economy.

I fully share its main conclusion: Europe faces a complex and uncertain environment, in which preserving stability and advancing reforms must go hand in hand.

### **A More Demanding Environment**

Europe's macroeconomic landscape has become considerably more complex.

Geopolitical tensions remain elevated.

Global competition has intensified.

Defence and security needs are rising, while access to energy and critical raw materials remains uncertain.

The continuing war in Ukraine is only one element of a broader reordering of the global economy - a transformation that tests Europe's ability to adapt, to act collectively, and to remain competitive.

At the same time, public finances are under pressure, and monetary policy, while still effective, must operate with narrower trade-offs and longer transmission lags.

Some policy space remains, but it must be used prudently and in close coordination with fiscal and structural measures.

### **Four Observations for Our Region**

Against this backdrop, let me share four observations that, in my view, are particularly relevant for our region.

**First**, despite persistent headwinds, Europe - and especially the economies of Central, Eastern, and South Eastern Europe - has shown notable resilience.

Inflation has declined substantially from its peaks, and the financial system has remained stable and well-capitalised.

However, labour markets across much of the region are very tight.

This reflects both the strength of domestic demand and deep-seated demographic constraints.

While high employment supports incomes and consumption, persistent labour shortages and strong wage growth are increasingly weighing on competitiveness and potential output.

These developments underline the importance of maintaining sound fundamentals and continuing with structural reforms.

Policy buffers are thinner, fiscal margins narrower, and the scope for adjustment smaller.

Preserving resilience will therefore require renewed discipline and closer coordination across macroeconomic policies.

**Second**, the external environment will remain challenging.

Our economies are open, export-oriented, and deeply integrated into European value chains - a major strength, but also a channel through which global shocks transmit rapidly.

Trade tensions, industrial policy shifts abroad, and fragmented supply chains continue to weigh on our region.

Meanwhile, some countries are shouldering disproportionate costs arising from the war in Ukraine - including higher energy expenditures, refugee inflows, and greater defence spending.

Europe's policy framework will need to better reflect these asymmetries if cohesion within the Union is to be preserved.

**Third**, fiscal policy remains the central test of credibility and responsibility.

The Outlook rightly emphasizes the importance of addressing higher spending needs while maintaining fiscal sustainability.

This balance is still difficult to achieve in many parts of Europe.

Fiscal prudence is not austerity - it is responsibility.

Rising incomes and greater investment are necessary, but without discipline and efficiency, they can undermine the stability they are meant to support.

In our region, fiscal credibility has often been hard-won and easily tested.

That lesson remains valid today: credible public finances are the foundation of sustainable growth and the anchor of stability and confidence.

**Fourth**, demographic and structural factors have become binding constraints on potential growth across Europe, and especially in our region.

A shrinking and ageing workforce limits productivity, constrains innovation, and sustains cost pressures.

For several of our economies, these trends have become structural.

Addressing them requires sustained investment in education, labour force participation, and human capital.

This is an area where stronger coordination at the European level could make a decisive difference.

## **Stability and Transformation**

In this environment, strong fundamentals are not simply a comfort - they are a strategic necessity.

Bulgaria, like some of its peers, benefits from a solid external position, low public debt, and a well-capitalised banking system.

These are not abstract indicators. They are the anchors of stability and confidence that create the space for reform and investment.

But stability alone is not enough.

It must become the platform for transformation - for improving productivity, strengthening institutions, and fostering innovation.

Institutional progress in our region has been real but uneven.

Differences in regulatory predictability, rule of law, and administrative capacity continue to weigh on competitiveness.

Closing these gaps is not only about governance - it is about credibility and long-term growth.

## **Europe's Broader Task**

More broadly, Europe's challenge is not only to withstand volatility, but to turn it into a source of renewal.

That means completing the Single Market, deepening capital markets, and accelerating reforms that strengthen Europe's competitiveness and resilience.

Too often, European policymaking remains reactive and fragmented.

But the tasks ahead - from ensuring fiscal sustainability to advancing the structural reform agenda - require continuity, scale, and shared purpose.

If Europe acts decisively and cohesively, it can turn its diversity into strength.

If it hesitates, it risks losing ground in an increasingly competitive world.

## **Bulgaria's Euro Area Accession**

Let me conclude with a brief comment on Bulgaria's forthcoming accession to the euro area.

This is not only an economic milestone - it is a strategic decision that anchors our economy more firmly within Europe's institutional and financial framework.

It will enhance our resilience to external shocks and reinforce our capacity to contribute to Europe's overall stability and strategic autonomy.

But joining the euro area is not the end of a process; it is the beginning of a deeper responsibility - to maintain fiscal discipline, to strengthen institutions, and to pursue reforms with consistency.

These are the principles on which Bulgaria - and our region as a whole - should continue to build convergence, resilience, and sustainable growth in the years ahead.

Thank you.